

PUBLIC DISCLOSURE

MAY 9, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

BAY STATE SAVINGS BANK

CERT # 90311

**28 FRANKLIN STREET
WORCESTER, MA 01608**

Division of Banks

1000 Washington Street, 10th Floor

Boston, MA 02118

Federal Deposit Insurance Corporation

350 Fifth Avenue, Suite 1200

New York, NY 10118

NOTE:	This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks or the Federal Deposit Insurance Corporation concerning the safety and soundness of this financial institution.
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GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires the Massachusetts Division of Banks (“Division”) and the Federal Deposit Insurance Corporation (“FDIC”) to use their authority when examining financial institutions subject to their supervision, to assess the institution's record of meeting the credit needs of its community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Bay State Savings Bank (or the “Bank”)**, prepared by the Division and the FDIC, the institution's supervisory agencies as of **May 9, 2011**. The agencies evaluate performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The Division and FDIC rate the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00 and in Appendix A to 12 CFR Part 345 of the FDIC's Rules and Regulations.

INSTITUTION'S CRA RATING: This institution is rated: “Outstanding.”

An institution in this group has an excellent record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Small Bank CRA procedures were utilized for this evaluation. The assigned rating is based on the results of five performance criterion: (1) average net loan-to-deposit ratio, (2) lending within the assessment area, (3) lending to borrowers of different incomes, (4) geographic distribution of loans, and (5) response to consumer complaints. The Bank's performance under each of these criteria is summarized below.

- Bay State Savings Bank's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area's credit needs.
- A substantial majority of the Bank's residential loans and small business loans are inside the assessment area.
- The distribution of borrowers reflects, given the demographics of the assessment area, an excellent penetration among individuals of different income levels (including low- and moderate-income), businesses of different sizes, and the size of small business loans.
- The geographic distribution of the Bank's loans reflects an excellent dispersion throughout the assessment areas.
- The Bank has not received any CRA-related complaints.

A review of the Bank's qualified investments and services, at management's request, revealed a performance that was commensurate and further supported the Bank's overall rating.

SCOPE OF EXAMINATION

This evaluation includes a review of the Bank's lending and community development activities for the period of February 8, 2008, the date of the previous CRA evaluation, through May 9, 2011, the date of the current CRA evaluation. This evaluation was conducted jointly by the Division and FDIC. The evaluation utilized Small Bank procedures, as defined by the CRA. A "small bank" means an institution that, as of December 31 of either of the prior two calendar years, had assets of less than \$280 million, adjusted annually. These procedures include five performance criteria (1) loan-to-deposit ratio, (2) assessment area concentration, (3) borrower distribution, (4) geographic distribution, and (5) response to written complaints. The data and applicable timeframes utilized for the five criteria are discussed below.

Although the evaluation considers all lending since the previous evaluation, the emphasis is on residential lending (primary emphasis) and small business lending (secondary emphasis) for 2009 and 2010. These two lending categories comprise a substantial majority of the Bank's loan portfolio and are its primary lending focus according to Bank management. As illustrated in the composition of the Bank's loan portfolio under the *Description of the Institution*, the Bank does not originate a substantial number of consumer loans and does not originate small farm loans. As such, consumer and small farm loans are not considered in this evaluation.

Information concerning the Bank's home mortgage lending was derived from the loan application registers ("LARs") maintained by the Bank pursuant to the Home Mortgage Disclosure Act ("HMDA"). The LARs contain data about home purchase, home improvement, and refinancing loans on one-to-four family and multifamily (five or more units) properties. While 2009 and 2010 lending data was analyzed, the data presented in this evaluation with respect to the *Geographic Distribution* and *Borrower Characteristics* criteria emphasizes the Bank's 2009 lending data, as this is the latest year for which aggregate lending data is available. Aggregate lending data is the lending performance of all other financial institutions within the defined assessment area, as reported on their HMDA LARs, for 2009. Aggregate lending data is referenced in this evaluation for comparison purposes.

While the Bank is not subject to CRA data reporting because of its asset size, information concerning CRA small business data was derived from a statistical sample from the Bank's commercial loans portfolio for the years 2009 and 2010. Because the Bank is not a CRA reporter, aggregate lending data is not used for comparison purposes. Demographic information is used for comparison purposes.

At management's request, the Bank's community development investments and services activity were also reviewed.

PERFORMANCE CONTEXT

Description of Institution

Bay State Savings Bank is a Massachusetts state-chartered, savings bank in stock form established in 1895 and headquartered in Worcester, Massachusetts. In addition to the main office and loan center located at 28-32 Franklin Street, the Bank operates six full-service branches and one limited-service branch. These branches are located in Auburn (one full-service and the limited-service branch), Holden (one full-service branch), and Worcester (four full-service branches). All offices are equipped with automated teller machines (ATMs). Additionally, all branches are located within the Worcester, MA Metropolitan Statistical Area (“MSA”).

Bay State Savings Bank had total assets of \$268 million at March 31, 2011, consisting principally of loans and securities. Total assets have decreased 11.8 percent since the last CRA evaluation conducted by the FDIC and the Division as of February 8, 2008. The loan portfolio accounted for most of the asset decrease (8.2 percent), with construction, residential real estate, and consumer loans being the primary contributors.

Loans total \$201.4 million at March 31, 2011, and account for 75.1 percent of total assets. Refer to the following table for information regarding the composition of the loan portfolio.

Table 1		
Loan Distribution as of March 31, 2011		
Loan Type	Dollar Amount (000's)	Percent of Total Loans
Construction and Land Development	3,597	1.8
1-4 Family Residential	113,443	56.3
Multi-Family (5 or more) Residential	18,118	9.0
Commercial	49,143	24.4
Total Real Estate Loans	184,301	91.5
Commercial and Industrial	7,024	3.5
Consumer	10,084	5.0
Total Loans	201,409	100.0
Source: Bank's Report of Condition and Income		

As shown in Table 1, the Bank is primarily a real estate lender, with 91.5 percent of the loan portfolio secured by real estate loans. Residential real estate loans comprise the single greatest share (67.1 percent) of the loan portfolio. These loans are secured by one-to-four-family residences, manufactured housing, and multi-family properties (5+ units) and include closed-end mortgage loans, equity loans, and revolving home equity lines of credit. Loans secured by commercial real estate comprise the next largest share of the real estate portfolio (24.4 percent). Loans to finance consumer purposes make up the next largest share of the loan portfolio (5.0 percent).

During the last evaluation period the asset size of the Bank dictated that Intermediate Small Bank examination procedures be utilized. The Bank's last CRA Evaluation resulted in a “Satisfactory” rating by the FDIC and a “High Satisfactory” rating by the Division. There are no apparent

financial or legal impediments that would limit the Bank's ability to help meet the credit needs of its assessment area. Based upon the Bank's asset size, product offerings, and branch network, its ability to meet the community's credit needs remains strong.

Description of Assessment Area

CRA requires each financial institution to define an assessment area within which its performance will be evaluated. The Bank defines its assessment area to include the following communities in Massachusetts: Auburn, Boylston, Charlton, Grafton, Holden, Leicester, Millbury, Oakham, Oxford, Paxton, Princeton, Rutland, Shrewsbury, Spencer, Sterling, Sutton, West Boylston, and Worcester. All of these communities are located in the Worcester, MA MSA.

The assessment area contains 78 census tracts. Of those tracts, 10, or 12.8 percent, are low-income; 14, or 17.9 percent, are moderate-income; 36, or 46.2 percent, are middle-income; 17, or 21.8 percent, are upper-income; and one or 1.3 percent is NA (income is not available). All of the low- and moderate-income census tracts are located in Worcester, except for one moderate-income census tract in Spencer. The NA census tract is located in Grafton, which consists of a youth service center.

Based on 2000 U.S. Census data, the total population of the assessment area is 353,026 persons and there are 134,089 households and 88,765 families. There are 140,053 housing units in the assessment area, of which 58.1 percent are owner-occupied. Table 2 provides additional demographic and economic information pertaining to the Bank's assessment area.

Table 2							
Assessment Area Selected Housing and Business Statistics by Income Category of the Geography							
Income Level of Census Tracts	Total Housing Units	Total Households	Rental Units (%)	Owner Occupied (%)	Vacant Units (%)	Median Housing Value	Business by Geography (%)
Low	15,128	14,023	79.3	12.8	7.9	\$97,328	10.7
Moderate	27,027	25,322	62.2	31.8	6.0	\$108,540	19.5
Middle	62,367	60,025	29.3	67.0	3.7	\$132,940	43.1
Upper	35,530	34,717	15.7	81.7	2.6	\$185,836	26.6
NA	1	2	100.0	0.0	0.0	NA	0.1
Total/Median	140,053	134,089	100.0	100.0	100.0	\$151,307	100.0
Source: 2000 U.S. Census data							

While 2000 U.S. Census data shows that the median housing value in the assessment area is \$151,307, more recent data obtained from *The Warren Group*, by individual municipality, appears in Table 3 showing that median prices for all single-family homes sold in the assessment area during 2009 and 2010 ranged from \$170,000 in Worcester to \$378,750 in Shrewsbury. The data also shows that the relative changes in median housing prices in the communities were not consistent, with several communities increasing in value and several communities decreasing in value.

Table 3		
Median Home Sales Prices		
City/Town	2009 (\$)	2010 (\$)
Auburn	200,000	205,000
Boylston	324,360	302,102
Charlton	235,250	250,000
Grafton	324,000	355,000
Holden	239,900	254,750
Leicester	195,000	174,750
Millbury	210,600	215,000
Oakham	232,250	217,500
Oxford	200,000	201,250
Paxton	241,500	251,100
Princeton	270,000	270,000
Rutland	286,000	257,500
Shrewsbury	321,975	378,750
Spencer	190,750	175,000
Sterling	291,000	272,800
Sutton	284,450	327,500
West Boylston	223,550	232,000
Worcester	174,000	170,000
Source: The Warren Group		

Unemployment data for the assessment area was obtained from the Bureau of Labor Statistics. All of the Bank's assessment area, the majority of the Bank's lending, and all of its branches are inside the Worcester MSA; therefore, the unemployment rate for the Worcester MSA was considered in this analysis. The unemployment rate for the Worcester MSA was 8.8 percent in 2009 and increased to 9.1 percent in 2010. As a comparison, the 2009 and 2010 United States unemployment rate was 9.3 percent and 9.6 percent, respectively, which is slightly higher than the Worcester, MA MSA. The Massachusetts unemployment rate also increased from 2009 to 2010, from 8.2 percent to 8.5 percent, which is lower than the Worcester, MA MSA rates.

The Bank operates in a competitive market area in terms of consumer financial services. The Bank competes for loan volume with many commercial banks, national banks, credit unions, and mortgage brokers. Among the mortgage lenders competing with the Bank are: Bank of America, N.A.; Wells Fargo Bank, NA; Sovereign Bank, FSB; and TD Bank, NA. According to market share reports for 2009, the Bank ranks 26th out of 323 lenders originating loans in the assessment area. The Bank tied with Digital Federal Credit Union for 26th, with a market share of 1.2 percent. The only other local institutions outranking the Bank were Spencer Savings Bank in Spencer and Country Bank for Savings in Ware. All other institutions ranking higher than the Bank were national mortgage companies and large regional or national banks.

During the evaluation period, housing prices for residential real estate have declined. There have been a few communities within the assessment area that have experienced housing price increases during the later part of the evaluation period. Because the unemployment levels have been elevated for an extended period during the evaluation period, sales of residential real estate has stagnated in several communities within the assessment area. Commercial real estate in the assessment area has reflected some upswings in terms of sales, although overall, the economic conditions remain stagnant with some positive signs of recovery.

Community Contact

A community contact was conducted at a local government agency within the Bank's assessment area. According to the contact, Worcester is in a transition period as it is starting to move away from its history as a manufacturing city. Over forty percent of the people living in Worcester work in some capacity for an educational or medical institution. With this in mind, the contact noted that the goal is to open Worcester up to more urban living. This would include increasing the amount of residential spaces, expanding the public transportation, making the downtown more pedestrian friendly, and attracting a wide variety of large and small businesses.

To help with the development and to attract businesses, the contact indicated a few programs with which local or immediate area financial institutions could get involved. Residentially, the contact stated that they want to get banks involved in a community development loan pool. This would assist with opening up more opportunities for low- and moderate-income borrowers to purchase homes. Commercially, the contact indicated they would like to see more banks willing to begin offering new small businesses either a low interest rate or deferred loan, or a small grant to assist with the startup costs of a new business. Currently, he stated that most banks in the area are not willing to fund startup small businesses unless they have excellent credit.

Through reviews of existing community contacts and the community contact conducted with the local government agency discussed above, community credit needs appear to center on supporting the City of Worcester in its economic development, providing affordable housing and affordable loans for low- and moderate-income persons and families, as well as specialized credit products to support small business start-ups and existing small businesses.

PERFORMANCE CRITERIA

1. Loan to Deposit (“LTD”) Analysis

This performance criterion determines what percentage of the Bank’s deposit base is reinvested in the form of loans and evaluates its appropriateness. Based on the Bank’s asset size, financial condition, and the credit needs of its assessment area, the Bank’s net LTD ratio is reasonable.

Bay State Savings Bank’s quarterly net LTD ratios for the period of March 31, 2008, through March 31, 2011, averaged 94.7 percent. This average ratio is based on loans net of unearned income and allowance for loan and lease losses divided by total deposits.

The Bank’s average net LTD ratio was compared to the average net LTD ratio of other similarly situated banks. Each of these banks was chosen because of its relative proximity, lending focus, lending areas, and asset totals. Table 4 references the asset size and average net LTD ratio of the Bank and similarly situated banks.

Table 4		
Average Net LTD Ratio Comparison		
Bank Name	Asset Size (000’s) As of 3/31/2011	Average Net LTD ratio
Athol Savings Bank	324,447	68.5
Hoosac Bank	350,097	79.8
Bay State Savings Bank	268,294	94.7
Spencer Savings Bank	387,478	103.1
Lee Bank	265,402	130.3
Source: Reports of Condition and Income from 3/31/2008 – 3/31/2011		

As noted in the Table 4, Bay State performed reasonably compared to the other similarly situated banks.

In addition, it is also important to mention that the Bank sold residential real estate loans during the evaluation period. Since the last CRA evaluation, the Bank sold 130 loans totaling approximately \$42.9 million. The loans were sold on the secondary market to MassHousing Finance Agency and US Bank. Because these loans have been sold, they are not reflected in the LTD ratio, but are indicative of the Bank’s willingness to make funds available to meet the credit needs of its community.

2. Assessment Area Concentration

This performance criterion determines what percentage of the Bank’s lending occurs within the assessment area and evaluates its appropriateness.

A review of the Bank’s 2009 and 2010 home and small business loans were reviewed and a substantial majority of loans and other lending activities directly benefited residents and businesses in the Bank’s assessment area. The following table summarizes the Bank’s home and small business lending, by both number and dollar volume.

Table 5 Distribution of Loans Inside and Outside of the Assessment Area								
Year/Loan Type	Inside				Outside			
	# of Loans		Dollar Amount		# of Loans		Dollars Amount	
	#	%	\$(000s)	%	#	%	\$(000s)	%
Home Loans								
2009	153	86.4	22,671	81.0	24	13.6	5,330	19.0
2010	249	81.1	37,519	74.5	58	18.9	12,820	25.5
Total Home Loans	402	83.1	60,190	76.8	82	16.9	18,150	23.2
Small Business								
2009	20	83.3	3,822	76.7	4	16.7	1,163	23.3
2010	20	83.3	4,316	82.8	4	16.7	894	17.2
Total Small Business	40	83.3	8,138	79.8	8	16.7	2,057	20.2
Total Loans	442	83.1	68,328	77.2	90	16.9	20,207	22.8
Source: Bank's 2009 and 2010 HMDA LARs and 2009 and 2010 small business loans								

Home Loans

Table 5 shows a substantial majority of residential loans were originated inside the Bank's assessment area. During 2009 and 2010, the Bank originated 484 HMDA-reportable loans totaling approximately \$78.3 million. Of these loans, 402 or 83.1 percent were originated inside the Bank's assessment area, totaling \$60.2 million, or 76.8 percent by dollar amount.

Small Business Loans

Table 5 shows a substantial majority of small business loans were originated in the bank's assessment area for 2009 and 2010. The majority of the loans, by number and dollar amount, were generated inside the assessment area.

3. Distribution of Credit by Income Level of the Borrower

This performance criterion evaluates the distribution of the Bank's home and small business loans based on borrower income and small business gross annual revenue. Analyses were conducted of the Bank's home mortgage loans inside the assessment area based on borrower income and the Bank's small business loans inside the assessment area based on gross annual revenue of the business. For home lending, emphasis is placed on loans to low- and moderate-income borrowers, and for small business lending, emphasis is placed on loans to businesses with gross annual revenues (GAR) of \$1 million or less.

Based on the review of the home and small business loans, the Bank achieved an excellent penetration of loans among individuals of different income levels and businesses of different revenue sizes and loans in different loan size categories.

Home Loans

Residential lending data was reviewed to assess how well the Bank is meeting the housing credit needs of the area's residents at all income levels. Emphasis is placed on the Bank's record of lending to low- and moderate-income borrowers residing in the assessment area. Table 6 reflects the distribution of residential loans, by borrower income level, in comparison with the aggregate lenders performance and demographic indicators.

Table 6 Distribution of HMDA Loans by Borrower Income (Excludes borrowers for which income is not available)									
Loan Category	# of Bank Loans	Percent of Bank Loans				Percent of Aggregate Lending			
		Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
2009									
Home Purchase	54	14.8	35.2	31.5	18.5	11.2	34.9	27.3	26.6
Refinance	54	9.3	18.5	29.6	42.6	6.3	17.9	28.2	47.7
Home Improvement	29	31.0	31.0	17.2	41.4	7.9	20.1	32.4	39.6
Total	137	11.7	27.7	27.7	32.9	7.7	22.7	28.2	41.4
2010									
Home Purchase	41	17.1	31.7	26.8	24.4				
Refinance	156	7.7	32.7	22.4	37.2				
Home Improvement	44	4.5	20.5	36.4	38.6				
Total	241	8.7	30.3	25.7	35.3				
Grand Total	378	9.8	29.4	26.5	34.4				
Demographics	# of Families	Distribution of Families in the Assessment Area							
		Low	Moderate	Middle	Upper				
Families	88,765	21.7	17.3	22.1	38.9				
Source: Bank's 2009 and 2010 HMDA data, HMDA Aggregate Data for 2009, Demographics from 2000 U.S. Census Data									

As reflected in Table 6, in 2009, the Bank had a higher percentage of loans to low- and moderate-income borrowers than the aggregate lenders in the assessment area in all home loan categories.

In comparison with the percentage of low-income families within the assessment area, the Bank's performance lagged. However, a review of assessment area economic and demographic information revealed the assessment area has a high percentage of low-income families living at poverty level, making it difficult for this group of borrowers to qualify for home financing.

In comparison with the percentage of moderate-income families within the assessment area, the Bank's performance was strong. The Bank has a higher percentage of loans to moderate-income families in all loan categories for both 2009 and 2010.

Aggregate lending data for 2010 was not available for comparison purposes during the evaluation. A review of the Bank's lending data from 2010 reveals that the Bank's home purchase lending to low-income borrowers increased to 17.1 percent from 14.8 percent in 2009. Home improvement loans to low-income and moderate-income borrowers decreased in 2010.

Small Business Loans

Table 7 reflects the distribution of small business loans by gross annual revenue.

Table 7			
Distribution of Small Business Loans by Gross Annual Revenue			
Year	# of Bank Loans	Businesses with Revenues of \$1 million or less	
		Percent of Bank Loans	Percent of Businesses
2009	20	80.0	75.7
2010	20	85.0	76.5
Source: Bank's 2009 and 2010 Small Business Data and 2009 and 2010 Dunn & Bradstreet Business Demographic Data			

The percentage of businesses located in the Bank's assessment area with revenues of less than \$1 million is less than the percent of loans originated by the Bank. This comparison reflects Bank's ability and willingness to lend to smaller sized businesses in its assessment area.

A further analysis of the small business loans inside the Bank's assessment area was reviewed by the size of the loan amount, under the premise that smaller loans frequently benefit smaller or start-up businesses.

Table 8				
Distribution of Small Business Loans by Loan Size				
Loan Size	Bank Loans			
	#	%	\$ (000's)	%
2009				
Less than \$100,000	7	35.0	451	11.8
\$100,000 - \$250,000	9	45.0	1,720	45.0
Over \$250,000	4	20.0	1,651	43.2
Total	20	100.0	3,822	100.0
2010				
Less than \$100,000	10	50.0	500	12.1
\$100,000 - \$250,000	4	20.0	765	18.5
Over \$250,000	6	30.0	3,051	73.8
Total	20	100.0	4,316	100.0
Grand Total	40	100.0	8,138	100.0
Source: Bank's 2009 and 2010 Small Business Data				

As noted in Table 8, over one third or 35.0 percent of the Bank's small business loans were in amounts of \$100,000 or less in 2009. This level of lending increased to half of the small business loans or 50 percent in 2010 loans of \$100,000 or less.

4. Geographic Distribution

This criterion evaluates the distribution of the Bank's loans within the assessment area by census tract income level, with an emphasis on lending in the Bank's low- and moderate-income census tracts. As mentioned previously under the *Description of Assessment Area* section, the Bank's assessment area comprises 78 census tracts: 10 are low-income, 14 are moderate-income, 36 are middle-income, and 17 are upper-income census tracts and one is income not available.

Based on a review of home and small business loans, the geographic distribution of loans reflects an excellent distribution throughout the assessment area, particularly to low- and moderate-income geographies in the assessment area.

Home Loans

Table 9 reflects the percentage of the Bank's residential loan originations in the different income census tracts for 2009 and 2010. The Bank's performance is compared with the percent of owner-occupied housing units located within each census tract income level. Additionally, the Bank's residential loan originations are compared with the aggregate lenders' performance.

Table 9									
Distribution of HMDA Loans by Census Tract Income Level									
Loan Category	# of Bank	Percent of Bank Loans				Percent of Aggregate Lending			
	Loans	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
2009									
Home Purchase	58	12.1	19.0	55.2	13.8	4.7	13.9	49.5	31.9
Refinance	64	9.4	10.9	50.0	29.7	1.1	5.7	45.0	48.2
Home Improvement	31	3.2	16.1	45.2	35.5	2.7	8.7	56.7	32.0
Total	153	9.2	15.0	51.0	24.8	2.1	8.0	46.8	43.1
2010									
Home Purchase	43	9.3	16.3	48.8	25.6				
Refinance	162	1.9	11.1	50.6	36.4				
Home Improvement	44	0.0	13.6	52.3	34.1				
Total	249	2.8	12.4	50.6	34.1				
Grand Total	402	5.2	13.4	50.8	30.6				
Demographics	# of Owner-Occupied Housing Units	Distribution of Owner-Occupied Housing Units in the Assessment Area							
		Low	Moderate	Middle	Upper				
Owner-Occupied Housing Units	88,765	8.5	16.3	45.5	29.8				
Source: Bank's 2009 and 2010 HMDA data, HMDA Aggregate Data for 2009, Demographics from 2000 U.S. Census Data									

In 2009, the Bank significantly outperformed the aggregate lenders in both low- and moderate-income census tracts. Also in 2009, the percentage of Bank loans in low- and moderate-income census tracts were higher than the percentage of owner-occupied housing units in low-income census tracts and slightly lower than the percentage of owner-occupied housing units in moderate-income census tracts.

In 2010, the percentage of the Bank's originated loans dropped from 2009 levels. However, the percentage of home purchase loans still mirrored the percentage of owner-occupied units in the low- and moderate-income census tracts. The Bank did not originate any home improvement loans in low-income census tracts, but had a reasonable percentage of home improvement loans in moderate-income census tracts.

Small Business Loans

Table 10 shows the percentage of Bank's small business loans originated by the census tract income level and compares the Bank's performance with the percentage of businesses by the census tract income level.

Table 10									
Distribution of Small Business Loans by Census Tract Income Level									
Loan Category	# of Bank Loans	Percent of Bank Loans				% of Businesses			
		Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
2009	20	30.0	30.0	30.0	10.0	10.7	19.5	43.2	26.6
2010	20	25.0	45.0	15.0	15.0	10.5	19.6	43.5	26.4
Source: Bank's 2009 and 2010 Small Business Data and 2009 and 2010 Dunn & Bradstreet Business Demographic Data									

In 2009, the Bank originated 60.0 percent of its small business loans in low- and moderate-income census tracts compared to 30.2 percent of the businesses located in these same census tracts. In 2010, the Bank originated 70.0 percent of its small business loans in low- and moderate-income census tracts compared to 30.1 percent of the businesses located in these census tracts.

Response to CRA- Related Complaints

The Bank has not received any CRA-related complaints since the prior evaluation. As such, this performance criterion is not applicable.

QUALIFIED INVESTMENTS AND SERVICES

At management's request, the Bank's qualified community development investment and service activity was also reviewed. Overall, this activity supported the overall rating. The following is a summary of the Bank's performance.

Community Development Loans

During the evaluation period, Bay State Savings Bank originated 18 loans totaling \$3,676,454, or 1.9 percent of net loans. Table 11 summarizes the qualified community development loans originated during the evaluation period that were targeted to low- to moderate-income individuals or geographies:

Table 11										
Qualified Community Development Loans										
Community Development Category	2008		2009		2010		2011		Total	
	#	\$	#	\$	#	\$	#	\$	#	\$
Affordable Housing	3	708,600	1	300,000	2	646,754	0	0	6	1,655,354
Community Services	5	359,000	2	235,000	2	28,000	1	80,000	10	702,000
Promote Economic Development	1	960,000	0	0	0	0	0	0	1	960,000
Revitalization or Stabilization	0	0	0	0	1	359,100	0	0	1	359,100
Total	9	2,027,600	3	535,000	5	1,033,854	1	80,000	18	3,676,454
Source: Internal Bank Records										

The following are some examples of the qualified community development loans originated during the evaluation period:

- In 2010 the Bank provided a first and second commercial real estate mortgage for \$359,100 to purchase and renovate a commercial condominium in downtown Worcester. This property is owned and occupied by a local licensed psychologist who operates a counseling and assessment clinic. Ninety nine percent of the clients served are low-income families. This property is located in a Commercial Area Revitalization District designated by the City of Worcester for economic development.
- In 2009 the Bank provided a first-lien commercial real-estate mortgage for \$185,000 to purchase a Queen Street property in the City of Worcester to be used for a treatment center. In 2011, the Bank provided a first-lien commercial real estate mortgage for \$80,000 to purchase a Vernon Street property in Worcester to be used for a treatment center. The Queen Street property is located in a Commercial Area Revitalization District designated by Worcester for economic development. This organizations main function is to operate bilingual and bicultural residence abuse treatment facilities that provides services for male residences and operates in an environment that is culturally sensitive and linguistically appropriate to the Latino population. A majority of the clients are low- and moderate-income.

- In 2008 the Bank provided funding to re-finance a first mortgage and provide financing for improvements to a Ripley Street property in Worcester in the amount of \$232,600. The purpose of the loan is to pay off an existing first mortgage with the MassHousing Partnership in the amount of \$157,000 and provide \$75,000 in funds for property improvements to the ten-unit residential apartment building. A local Community Development Corporation (“CDC”) owns the property and the housing is available for low- and moderate-income families and individuals. The local CDC who owns the property is committed to developing affordable housing and economic development in the Main South area of Worcester.

Qualified Investments

During the evaluation period, the Bank extended 123 qualified donations totaling \$195,057. The donations were extended to several organizations that provide education, youth programs, affordable housing, health and human services, and support business growth and development.

From February 9, 2008 to December 31, 2008, the Bank granted \$88,730 in donations to community organizations, of which \$64,001, or 72.1 percent, was considered qualified for CRA credit. For the year ending December 31, 2009, the Bank granted \$76,804 in donations, of which \$60,907, or 79.3 percent, was considered qualified donations for CRA credit. For the year ending December 31, 2010, the Bank granted \$66,179 in donations, of which \$46,679 or 70.5 percent was considered qualified donations for CRA credit. Through May 9, 2011, the Bank granted \$28,730 in donations, of which \$23,470, or 81.7 percent, was considered qualified for CRA credit.

Portions of the Bank’s donations are disbursed by its Charitable Foundation. The funds donated by the Bank’s Charitable Foundation are included in the CRA qualified donation totals summarized in Table 12 below. From February 9, 2008 through December 31, 2008, the Foundation granted \$38,714 in donations. For 2009, the Foundation granted \$34,442; for 2010, the Foundation granted \$24,934; and through May 9, 2011, the Foundation granted \$17,300 in donations.

See Table 12 for further details.

Table 12										
Qualified Community Development Donations										
Community Development Category	2008		2009		2010		2011		Total	
	#	\$	#	\$	#	\$	#	\$	#	\$
Affordable Housing	0	0	0	0	0	0	0	0	0	0
Community Services	33	51,551	30	50,357	29	42,429	13	21,720	105	166,057
Promote Economic Development	1	2,200	4	2,300	1	1,000	0	0	6	5,500
Revitalization or Stabilization	4	10,250	3	8,250	3	3,250	2	1,750	12	23,500
Total	38	64,001	37	60,907	33	46,679	15	23,470	123	195,057
Source: Internal Bank Records										

The following is a sample qualified community development donations extended by the Bank during the evaluation period:

Abbey Kelley Foster House, Inc. – This organization helps homeless women and children in the Worcester Area. The organization manages over 78 housing units, used to help women and children achieve short-term and long term service enriched housing and to prevent future homelessness in the community. Clients are low-income.

Children's Friend – This organization services the most vulnerable children and families whose lives have been affected by abuse, neglect, substance abuse, family instability, and economic hardship. The organization also provides mental health services, adoption and foster care, parenting skills for younger parents, and child care. Clients are low- and moderate-income.

Worcester Youth Center – This organization was set up to provide education, health, and recreation for inner city youths. Clients are low- and moderate-income.

Nativity School of Worcester, Inc. – This organization is an accredited, independent, Jesuit middle school that provides a quality, all-scholarship education to underserved boys of all faiths. The majority of students are low- and moderate-income.

Literacy Volunteers of Greater Worcester – This non-profit organization is committed to providing free tutoring to underprivileged adults in need of basic literacy skills and English as a second language. Clients are low- and moderate-income.

Martin Luther King Jr. Business Empowerment Center – This organization helps to provide a better quality of life in the underserved community through: business development culturally focused pre-employment training, and incubation.

Rebuilding Worcester Together – This organization forms partnerships with corporations, individuals, and other organizations committed to re-habilitating housing for low-income homeowners, particularly the elderly, disabled, and families with children.

Higher Education Resource Center – This organization provides academic support, college and career advising, and retention support to under-represented 6th – 12th grade students and their families. Clients are low- and moderate-income.

Community Development Services

Employees of the Bank are involved in local community development services in various capacities. Trustees, management, and staff serve on the boards and committees of various community organizations, civic groups, and non-profits.

The following list is a sample of benefitting organizations within the Bank's assessment area:

East Side Community Development Corporation – An Assistant Vice President serves as a Board Member of this organization. The organization's goals are to reduce poverty levels, increase affordable housing, offer job assistance for individuals to gain full-time employment, and to promote business to Worcester's East Side.

Nazareth Home for Boys – A Senior Vice President serves as a Board Member of this organization. This organization is a boarding school for disadvantaged and troubled boys.

Edward Street Child Services – A Bank Vice President serves as a Board Member of this organization. The organization provides child care services to low-income families.

Oak Hill Community Development Corporation – A Bank Senior Vice President serves on the organizations Board and is chair of the Audit Committee and also serves on the Loan Committee. The Banks Assistant Vice President also serves on the Board. This organization is focused on providing affordable housing for low- and moderate-income individuals.

Friendly House – A Branch Manager serves as Treasurer of this organization. The organization provides Social Services, housing services, and food programs for the most needy individuals and families of the community.

Worcester Community Housing Resources – A Senior Vice President is a Member of the Loan Committee. This organization works to help create and preserve affordable housing and to initiate and support neighbourhood revitalization in the greater Worcester area.

Taste of the Nation – A Bank Senior Vice President serves on the Board of this organization. The organization's main focus is to end childhood hunger at local, state, and national levels.

Rachel's Table – An Officer served as a Board of this organization. This organization distributes donated and specially purchased foods, without charge, to agencies feeding hungry families and individuals in greater Worcester, Massachusetts.

Worcester Community Action Council – A Vice President served as a member of the Board. This organization works to stimulate change in the fundamental causes of poverty and to create and provide opportunities for economic self-sufficiency through services, partnership, and advocacy.

Greater Worcester Boy's and Girl's Club – A Bank Senior Vice President served on the Board of Directors of this organization. The organization provides youth development for some of the city's most disadvantaged children and teens.

Children's Friend – A Senior Vice President serves on the Board of this organization. This organization services the most vulnerable children and families whose lives have been affected by abuse, neglect, substance abuse, family instability, and economic hardship.

Educational Services and Seminars

First Time Homebuyers Seminar – Bay State Savings Bank hosted 41 first time home buyer seminars in conjunction during the evaluation period. Sixteen of these seminars were held in 2008, nineteen in 2009, and six in 2010.

Financial Education –The Bank's Commercial Relationship Officer conducted one-hour seminars twice a year in 2009 and 2010 at a local non-profit educational organization whose mission is to empower woman to become economically self-sufficient and prosperous through entrepreneurship.

Financial Education –The Bank's Commercial Relationship Officer conducts bi-weekly financial instruction to residents of a local health alliance. The mission of this alliance is to identify and address the significant health disparities that exist for Latinos living in greater Worcester.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The Bank's compliance with the laws relating to discrimination and other illegal credit practices were reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. A violation of Section 5 of the Federal Trade Commission Act's Unfair or Deceptive Acts or Practices (UDAP) and a violation of the Federal Reserve Board's Regulation B – Equal Credit Opportunity (ECOA) were identified during the concurrent compliance examination of the Bank; however the Bank's overall CRA rating was not negatively impacted.

APPENDIX A

Fair Lending Policies and Procedures

The Bank's fair lending data was reviewed to determine how this information relates to the guidelines established by Regulatory Bulletin 2.3-101, the Division's Community Reinvestment and Fair Lending Policy.

Bay State Savings Bank's has an established Fair Lending Policy that was approved by the Board of Directors in July 2010. The Fair Lending policy addresses employee training including the Equal Credit Opportunity Act (Regulation B), and the Fair Housing Act. In addition, the Bank maintains a Strategic Plan that includes a formal training program, self monitoring and testing, improving the effectiveness of marketing to the Hispanic community, and improving the Bank's approachability.

The Bank's marketing is done through a local cable news channel, local radio, a local daily newspaper and their website, several surrounding towns' weekly newspapers, the local Hispanic newspaper and their website, as well as statement stuffers that reach the entire assessment area.

The Bank continues to maintain a second review program that requires the department head or a loan officer with at least similar loan authority to review declined loan applications. In a case where a disagreement exists between loan officers, the application is then reviewed by the Senior Vice President of Administration for final action.

There are currently 81 employees (67 full-time and 14 part-time) at the Bank, 14 of the 81 employees are bi-lingual. The bi-lingual employees are available to assist non-English speaking customers and potential customers. Second languages spoken include Spanish, French, Amharic, Twi, Housa, Russian, Italian, Portuguese, Vietnamese, Armenian, Albanian, and Hindi. As a result, the Bank is able to provide better service to customers of different ethnic backgrounds.

A thorough review of the public comment file revealed that the Bank received no complaints pertaining to the institution's CRA performance since the previous examination.

Minority Application Flow

A review of residential loan applications was conducted in order to determine the number of HMDA-reportable credit applications the Bank received from minority applicants. In 2009 and 2010, the Bank received 709 residential loan applications from within its assessment area. During this period, 42 applications or 5.9 percent were received from minorities and 21 were approved. Thirty two applications or 4.5 percent were received from individuals of Hispanic or Latino ethnic backgrounds and 14 were approved.

MINORITY APPLICATION FLOW								
RACE	BANK 2009		AGGREGATE DATA 2009		BANK 2010		BANK TOTAL	
	#	%	#	%	#	%	#	%
<i>Native American</i>	2	0.7	47	0.2	3	0.7	5	0.7
<i>Asian</i>	8	2.8	1,346	5.4	12	2.8	20	2.8
<i>Black</i>	7	2.5	547	2.2	7	1.7	14	2.0
<i>Hawaiian/Pacific Islander</i>	0	0.0	26	0.1	0	0.0	0	0.0
<i>2 or More Minority Races</i>	0	0.0	7	0.0	0	0.0	0	0.0
<i>Joint Race (White/Minority)</i>	1	0.3	221	0.9	2	0.5	3	0.4
Total Minority	18	6.3	2,194	8.8	24	5.7	42	5.9
<i>White</i>	230	80.7	17,318	69.1	362	85.3	592	83.5
<i>Race Not Available</i>	37	13.0	5,555	22.1	38	9.0	75	10.6
Total	285	100.0	25,067	100.0	424	100.0	709	100.0
ETHNICITY								
<i>Hispanic or Latino</i>	12	4.2	569	2.3	13	3.1	25	3.5
<i>Not Hispanic or Latino</i>	233	81.8	18,730	74.7	371	87.5	604	85.2
<i>Joint Hispanic/Not Hispanic</i>	2	0.7	167	0.7	5	1.2	7	1.0
<i>Ethnicity Not Available</i>	38	13.3	5,601	22.3	35	8.2	73	10.3
Total	285	100.0	25,067	100.0	424	100.0	709	100.0

Source: 2009, 2010 HMDA Data

Bank's minority application flow for this period was compared with the racial and ethnic composition of the assessment area and the 2009 aggregate data for all other HMDA reporters within the assessment area. The comparison of the data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants.

According to the 2000 Census Data, the Bank's assessment area contained a total population of 353,026 individuals, 17.1 percent of which were of various racial and ethnic minorities. The comparison between the 2009 aggregate data and the Bank data shows that total applications received from racial and ethnic minority applicants were 11.2 percent and for aggregate data 11.8 percent in 2009. This illustrates the Bank's overall application flow mirrored that of the aggregate in 2009 from racial and ethnic minorities. The comparison between the 2000 demographic data (17.1%) and the Bank data (11.2%) illustrates the Bank received fewer applications from racial and ethnic minorities than the demographics.

APPENDIX B

General Definitions

GEOGRAPHY TERMS

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Primary Metropolitan Statistical Area (PMSA): A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

Consolidated Metropolitan Statistical Area (CMSA): The larger area of which PMSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

HOUSING TERMS

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Upper-Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 28 Franklin Street, Worcester, MA 01608."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.